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SENSITIVE

SIPDIS

STATE FOR NEA/ELA
STATE PASS USTR FRANCESCKI
STATE PASS USAID BEVER/LAUDATO/SCOTT
TREASURY FOR PARODI/BLEIWEISS/CORREA
USDOC FOR 4520/ITA/MAC/ONE
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SUBJECT: LEBANON: LEBANON MEETS USG BENCHMARK FOR PARIS III SUPPORT
(ECONOMIC WEEK IN REVIEW, JANUARY 26 - FEBRUARY 1, 2009)

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CABINET SETS GAS EXCISE FLOOR:
MEETS USG BENCHMARK FOR BUDGETARY SUPPORT

¶1. (SBU) On January 23, the cabinet passed a gas excise floor of LL 470 (approximately 31 cents) per liter, uncapping the price of gas at the pump and tying it to international oil prices, senior staffer at the Ministry of Finance (MOF) Zeina Kassem told EconOff January 29. In line with this decision, the Ministry of Energy and Water (which issues weekly prices for oil derivatives every Wednesday) raised the price of 20 liters of gas at the station from about \$15.7 to \$16 starting January 29, due to the rise in international oil prices.

¶2. (SBU) By setting a gas excise floor, the cabinet met one of the USG benchmarks for the disbursement budgetary support pledged at Paris III, as the gas excise floor exceeds the USG benchmark of LL 300/liter. MOF senior staffer Nadine Yazbek told us the MOF would like to use the \$50 million it is scheduled to receive from the USG for meeting the benchmark to pay off Eurobonds held by the Central Bank of Lebanon (CBL). As of September 2008, the CBL held \$150 million in Eurobonds maturing between May and August 2009, she said.

U.S. AND FRENCH PRESSURE
SAFADI INTO ACTION ON WTO

¶3. (U) On January 29, Lama Oueijan, senior advisor at the Ministry of Economy and Trade (MOET), told EconOff and visiting NEA/ELA economic desk officer Katherine Allen that USTR had contacted the MOET, saying it would support a new working party meeting for Lebanon late-February or early-March if it saw progress on WTO legislation. Following this call, said Oueijan, Minister of Economy and Trade Mohammad Safadi met his French counterpart Christine Lagarde on the sidelines of a conference on Lebanon's role in the

Mediterranean region, organized by the Arab Institute in Paris, in collaboration with the Safadi Foundation. Oueijan said Lagarde pressured Safadi to move WTO-related legislation forward, which led him to contact Parliament Speaker Berri, asking him help get parliament to vote in the proposed law on international trade and licensing before the end of February. Safadi will also work with the cabinet to pass a decree reviewing the fees for commercial registration (ad valorem fees), Oueijan claimed.

CABINET REDUCES
MOBILE PHONE RATES

14. (U) During its January 29 session, cabinet delivered on its promise of lowering mobile phone tariff rates for both prepaid and postpaid lines. Effective March 1, the monthly fee for postpaid lines will be lowered to \$15 from \$25, and the rate per minute to 11 cents from 13 cents. On April 1, the duration of prepaid lines will be extended to three months from one month, and the rate per minute cut to 36 cents. The reduction in rates comes as the Ministry of Telecommunications is in the process of expanding the mobile network and expects to be able to add 800,000 new lines by the end of April. Ministry of Telecom advisor Gilbert Najjar told Allen and EconOff January 30 that those lines should result in a significant increase in mobile subscriptions, which will more than compensate the GOL for the lower rates.

IMF TEAM TO VISIT BEIRUT
FOR EPCA REVIEW

15. (SBU) An IMF team is expected in Beirut on February 19 to conduct
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Article IV consultations and an Emergency Post-Conflict Assistance (EPCA) review, Director General of the Ministry of Finance (MOF) Alain Bifani told us on January 29. The team will assess macroeconomic, monetary, and financial indicators. Last year, Lebanon signed its second EPCA agreement with the IMF.

EDL CHAIRMAN: POLITICAL BACKING
CRUCIAL TO SOLVING ELECTRICITY PROBLEMS

16. (SBU) On January 29, the chairman of national power utility Electricite du Liban (EDL), Kamal Hayek, told us EDL's problems cannot be fixed without political support. He said EDL is the only large public entity with no political patron, resulting in chronic deficits, massive staff shortages, outdated equipment, and a shortage of production capacity.

17. (SBU) Hayek believed the GOL should take action simultaneously on three fronts: corporatization, public and private investment in new power plants, and tariff restructuring. While a tariff revision would provide expenditure savings of about \$200 million per year, the idea of a tariff revision was rejected in the January 23 cabinet session, a senior MOF official told us separately. Hayek also stressed the need for EDL to acquire additional power to meet increased demand. He said he will once again visit Cairo the week of February 2 to discuss the purchase of electricity from Egypt, but, noting negotiations have been going on since last summer, Hayek doubted they would ever succeed without political backing from the PM.

LEBANON SEEKS USG BACKING TO
ATTEND G-20 FORUM

18. (SBU) During a meeting with NEA/ELA regional economic desk officer Katherine Allen on January 28, Chairman of the Banking Control Commission (BCC) Walid Alameddine raised the possibility of U.S. backing for Lebanon's participation at the next G-20 meeting in April 2009. He said that according to the White House website, G-20 countries opened the Financial Stability Forum to emerging countries during their November 15-16, 2008 meeting. Alameddine said he sent a letter to PM Siniora asking him to seek U.S. backing, and noted

that while Siniora showed interest in having Lebanon play a greater role, the PM will follow-up on this issue with the Saudis.

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